WHY NEW PRODUCTS FAIL

And What We Can Do to Reduce Failure Rates

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NEW PRODUCT FAILURE RATES ABOUND

With all the focus and emphasis on New Products, a troubling trend remains: a perennially high 80% new products failure rate.

1. Failure rates vary among industries, ranging from 35 percent for healthcare to 49 percent and higher for consumer goods. Successful new product launches are exceptional, not the rule.
2. A Nielsen study showed that 63% of consumers LIKE when manufacturers offer new products, so there is pressure for companies to continue their new product launch campaigns.
3. About 75% of consumer packaged goods and retail products fail to earn even $7.5 million during their first year. This is in part because of the intransigence of consumer shopping habits.
4. The consultant Jack Trout has found that American families, on average, repeatedly buy the same 150 items, which constitute as much as 85% of their household needs; it's hard to get something new on the radar.
5. Even P&G routinely whiffs with product rollouts. Less than 3% of new consumer packaged goods exceed first-year sales of $50 million—considered the benchmark of a highly successful launch.
6. And products that start out strong may have trouble sustaining success: We looked at more than 70 top products in the Most Memorable New Product Launch survey for the years 2002 through 2008. A dozen of them are already off the market. The importance of innovation can be summarized by 3M's CEO stating that 40% of their revenue in 2017 resulted from products that had not even existed 5 years ago. In some innovation circles, it is suggested that to be considered an innovative company, at least one-third of a company's revenues should come from products developed within the last three years.
7. Innovation seems to be the business imperative of this decade and beyond. Companies are pouring millions of investment dollars into innovation labs to focus on product and service innovation. So, in view of all this, why the high failure rate?

WHY SO MANY PRODUCTS FAIL, AND IT'S NOT ALWAYS THE PRODUCT

The ability of an organization to systematically ideate, design, develop and launch a new product or service successfully is paramount to survival. So then, why do so many companies endure failure after failure in their new product introductions? Why do so many new products fail and what are companies doing wrong in their approach to designing, developing and launching new products?

Based on our own new product experiences over the past two decades in the areas of ideation, concept optimization, product optimization, price elasticity and optimization and evaluation of requisite marketing and launch elements, we've observed dozens of common causes of innovation failure that often don't get the attention they deserve. And most of these failures have less to do with the product itself than you might think. We have listed and dissected 14 such causes and hinted at a minimum of at least a dozen more in this document.

1. **There can be dozens of reasons why any one particular product fails (flawed product design, overpricing, pricing elasticity miscalculations, ineffective marketing, mis-targeted consumer segments, lack of understanding of consumer needs, assorted other marketing mix factors, etc.), but the high failure rate of new products often boils down to a lack of understanding of who the optimal customers are and what their most critically important needs and wants are. And the undertaking of determining what these needs and wants are often comes too late in relation to the milestones of the entire new product program.**

   While market research, qualitative exploration, purposive ideation and concept-product testing can guide the design and development process, from our experience, we have seen that customer input often comes too little and too late and involves too small a sample size. In fact, in so many of the cases we've witnessed, reliable customer feedback often comes only once the product has hit the market.

   The most surefire protocol to properly assess what your customers want relative to your new products is quite simple…involve them in the product development and design ideational and evaluation phases—***early and often***. Companies like Unilever, General Mills, P&G, Coca Cola, SC Johnson, Anheuser Busch and Starbucks have recognized how using current and future customers' perspectives to co-create new products leads to much higher success rates.

2. **Often times, the factors leading to failure are less related to the product itself and more involved with the types of customers utilized in early phase research.**

   Research carried out by the Kellogg School of Management (https://insight.kellogg.northwestern.edu/article/the_customers_you_do_not_want) found that it is just as important to pay attention to who the customers are as it is to track how they react to the product itself. They found that while feedback can play a vital role in determining whether or not a new product will be successful, there is a unique subset of customers who are consistently attracted to products doomed to fail. The study refers to these customers as 'harbingers of failure'. By studying major retailer loyalty card programs, the researchers were able to learn that new products' chances of success depended not only on how much is sold, but also on the typology and quality of customers who are buying. What these findings reveal is that to successfully involve customers in the development process requires an extra step. As Eric Anderson explains:

   > 'These are products where a manufacturer went out, they did concept testing, they talked to customers, they brought it to retailers, and the retailers piloted it in their stores. The retailers said yes, it's a product we want to roll out to our entire chain—and then it doesn't last very long. What seems to be happening is that these customers have preferences that might be non-mainstream, or as we like to put it, they're not representative of the overall population.'

   To avoid this problem, Anderson and his colleagues found that it was important to have a more rounded sense of who your customers are when they are providing feedback. Engaging with them over the long-term and having a sense of how they interact with other products and brands help to avoid customers whose taste is not reflective of a larger population.

3. **Could causes of failure be related to:**

    a. Lack of customer ideation research and validation testing supporting the new product, its design, features and functions?
    b. Fixing and/or improving upon a non-existent or relatively low level pain problem?
    c. Incorrect pricing with little understanding of the product's potential elasticity?
    d. Inaccurate representation of a segmented research universe which contains little understanding of correctly targeted products and irrelevant customers?

4. **One failure we see quite often is lack of rigor behind sales, market planning and execution.**

    Most of the product development methodologies, including the proprietary array we have used for our clients, apply a strong level of rigor and testing prior to allowing the product to move to the next phase or pass the "stage gate." However, most of these methodologies don't have the same level of rigor when it comes to marketing and sales planning, or if the methodology does, organizations ignore it.

    There are four areas of rigor that should be considered by sales and marketing:

    a. Planning. Sales and marketing should answer these questions with data and precision:

    - What are the revenue goals for the new product over the first three years?
    - At what price point are you planning to introduce the product?
    - Based on the price point, how many total sales will you need to meet revenue goals?
    - What sales funnel assumptions are you making about customer buying behavior? For a B2B example: How many marketing impressions will you need to make to get an inquiry about the product? How many inquiries will you need to get a proposal request? How many proposal requests will you need to get one sale?
    - Based on the total number of sales and the sales funnel assumptions, how big should your prospect universe be?
    - What percentage of sales will come from existing customers that may not require marketing cultivation and engagement?
    - What is each salesperson responsible for?
    - Will there be repeat purchases, and if so, what do you know about customer retention?

    b. Defining the customer. Define how the market breaks down into customer segments and personas and the specific value proposition and messages for each segment and persona combination with these questions:

    - What types of customer segments and personas are most likely to buy and why?
    - What is the buying behavior of the customers?
    - What is the "felt" need this product will solve for the customer?
    - How were your target personas selected?
    - Is your selected target universe large enough to meet revenue goals?

c. Refining value propositions. Based on the segmentation of the customer set and persona definition, the value propositions can be fine-tuned through these questions:

- What is the value proposition for each segment and persona?
- How will you communicate differently to each audience?
- What is the best method to contact each persona within the segments?
- What is the differentiation value of the product compared to competition?
- What other needs do the personas have outside of the product?

d. Developing marketing strategy and tactics. Identify marketing activities to reach the universe defined in planning and delivering the message defined above by asking:

- How will we communicate with our target personas?
- How will we cultivate a digital interaction?
- What is the timing of the messages?
- How will you integrate marketing and sales touches?
- How was customer research used to define communications messages and media to the target personas?
- How will you measure campaign success?

All too often, the new product gets lost in the noise of day-to-day pressures of driving revenue. Taking time to analyze and address these aforementioned questions with due diligence helps insure a successful new product launch. Avoid the "gut feel." If you can't answer these questions with supporting data, then you're opting for hoping the product launch will be successful—and we all know hope is not a strategy.

5. Neglecting to Address Broad, Generically Important Consumer Needs

According to Nielsen BASES, approximately one half of innovations tested don't effectively convey whether and how they deliver on a broad consumer need. In some cases, such as when a new product is premium or targeted to a very specific audience, this is by design. Still, for a "niche" brand to have any chance of success, it must be incremental to the brand or to the category—ideally both. In our two decades of expertise in the new product ideation and testing space, we've seen that only about 5% of concepts that lack broad appeal will deliver above-average incrementality to the brand. That is, launches considered niche are rarely incremental and could actually shrink brand share depending on how much support is misdirected to them.

6. Failing to Provide and Measure a Satisfactory Product Use Experience Prior to Launch

Some manufacturers striving to be more "agile" are streamlining their product testing prior to launch, increasing the likelihood that consumers' first experience with the new products will be suboptimal. In a recent Nielsen survey of more than 350 innovation professionals, 47% confessed that testing and optimizing the product experience tends to suffer most compared to other stages of the innovation process when speed to market is a priority.

Product experience is a key driver of repeat purchasing and long-term success. Brands often overestimate the loyalty of repeat buyers. Another Nielsen study found that, on average, it takes approximately eight purchases for a consumer to become a truly loyal buyer. Between the trial purchase and the first repeat purchase, a brand will lose approximately half of its initial triers. From the first repeat purchase to the second, the brand will again lose half of the remaining buyers. This cycle continues until the remaining franchise stabilizes—at around the eighth purchase. Without a strong product experience, brands won't make it to that eighth purchase, especially given the proliferation of new entrants, promotions and unavoidable variety-seeking.

7. Buyer Attrition

Based on our own validation and tracking observations, WACSIS has found that new products with strong performance in pre-market product testing were 10-12 times more likely to succeed in-market than those with poor pre-market testing performance. Moreover, products that pre-market evaluation deems "not ready" in terms of their inability to deliver generically necessary product-driven dimensions but launch anyway are typically the ones to suffer in-market. The difference between a strong and a weak product experience can result in sales differences of 30% in year one. Closing this gap through fast, efficient pre-market testing has considerable advantages over in-market remedial efforts.

8. Retail Sales Mapped to Pre-Market Product Test Performance Providing Insufficient Marketing Support

Another Nielsen study we found which reviewed 600 product launches across multiple markets and categories found that one-third of the initiatives failed as a function of insufficient marketing support. Interestingly, an exceedingly strong product or proposition would've made little difference for these launches—they simply didn't have the baseline marketing support needed to get the ball rolling. While sufficient marketing support in year one is crucial to get products launched, the challenges tend to stretch beyond year one. To remain competitive into year two, products cannot rely only on repeat customers—they also need a healthy influx of new triers. Because sustained trial demands a continued and growing awareness of the product, an investment in media is typically required to keep the product fresh in consumers' minds. Despite this reality, budgets are often cut after year one, which erodes sales velocity. Eventually, this results in a loss of distribution and inevitable decline in years two and three. This chain reaction explains why two-thirds of new products decrease in volume during their second year in market.

9. Consistent Overstating of Anticipated Level of Marketing Support

Although these problems from insufficient marketing support become apparent after one or more years in market, they begin much earlier in the innovation planning stage. Nielsen has discovered that, of 80 randomly-selected U.S. product launches across multiple categories, most of the variance between the initial forecasted sales estimates and the actual in-market performance could be explained by overly-optimistic marketing assumptions. The average volumetric difference between these two scenarios—planned vs. actual support—was approximately 30%. Regardless of client, country and category, many similar analyses that WACSIS has conducted over the years tell the same story: there's a consistent bias towards significantly overstating the anticipated level of marketing support.

10. Failure to Address Certain Principles Which Drive Successful Innovations

There is no substitute for addressing various principles driving innovation success:

a. Invest in a good idea.
b. Transform it into a fantastic product that delivers on the promise.
c. Effectively support the brand in year one so it has a chance to compete.
d. Have the patience to drive enough penetration to build sustainable volume.
e. Maintain organizational focus on only those innovations that will drive overall brand growth.
f. The easiest path to the first page of search results, positive social media mentions, and a five-star rating is to offer a fantastic product experience that delights consumers.

11. Lack of Preparation

One of the biggest problems we've encountered is lack of preparation: Companies are so focused on designing and manufacturing new products that they postpone the hard work of preliminary ideation and testing and market planning until too late in the game. Since WACSIS is a research firm that specializes in market research studies and ideation for new product and re-branding launches, we regularly get calls from corporate product designers, developers, strategists, R&D, innovation officers and brand managers seeking help with their "revolutionary" products.

After listening to their initial commentaries and 'wish list' objectives, we ask about the research supporting their claims and whether they have done the due diligence relative to market planning. The classic response? "We haven't done any of that as yet, but we know anecdotally that it works and is totally safe." We've been hearing this for so long that we can often tell from one conversation whether the launch will succeed.

12. Lack of Perspective Regarding Customer Pricing Initiatives

It's critically important to have in-depth pricing discussions with target customers long before the product development team begins to draw up the engineering plans, and certainly long before any manufacturing resources are committed and configured to building something. Those discussions need to center on determining precisely what features customers truly care about, are willing to pay for, and the price they are willing to pay.

Shockingly, 80% of companies don't have this type of early-stage discussion with customers, ideally before product development. Most new product teams just develop the product, prepare it to go to market, and slap a price on it at the end of the process – without understanding whether customers value and are willing to pay for the product. These companies hope to monetize, but they have no real evidence that they will.

That is a recipe for failure, and it's the reason why two-thirds to four-fifths of new products fail.

Having that-important conversation with a number of target customers early in the product development will go a long way to reducing failure rates. It will help companies to design the product around what customer's value and are willing to pay for – or, in other words, design the product around the price as well as around unmet needs.

13. **Poor Ideation and Brainstorming Procedures Coupled With Inadequate Tool Kits**

When respondents are confronted during exploratory or ideation research with a unique new product that they had never seen nor known before, one that is unlike anything they have known, they can never really know if they want it, and they can never conjure any unmet needs for such a product. When you present something to a consumer that he or she has never seen before, they do not know how to react. They have no reference point, especially if the idea is disruptive and has never before been marketed. Such a new product idea or concept is almost always doomed in focus groups since respondents wouldn't have the language, prior perspective or disposition to articulate their feelings and response to anything remotely like it. Original, different new product opportunities like the Aeron Chair usually fail in focus groups.

Here is a more detailed explanation of why traditional qualitative procedures fail us when working on the new product launch, along with 18 proprietary solutions that WACSIS employs for its customers in order to overcome these kinds of problems: https://www.linkedin.com/pulse/focus-groups-have-declined-ideational-tool-choice-new-savitt/?published=t

14. **Faulty Research Perspectives and Inappropriate Selection of Research Procedures**

Basic problems regarding selection of ideation and subsequent quantitative techniques:

a. Poor planning and execution, especially relative to survey content. A great idea with the wrong communication of positioning can quickly die out. On numerous occasions, WACSIS has been brought in to help a client with concepts that failed in a BASES test. The methodology for testing might be very solid, but, when concept language and articulation of the proposition are wrong, the consumer won't bite. Don't risk walking into the testing stage without preparation. Your goal should be to create winning ideas and concepts. Without solid concept development, your best ideas may never make it past the initial stages. Planning your next concept test with an organization that truly understands how to create, then explore through research the upsides and downsides of a winning concept will save you time, money, and work. In addition, it will also help you decide which innovations are really worth championing—even if no one else shares your vision as yet.

b. Failure to derive maximum insights and solutions from ideation, concept and/or product test results. Leaving insights and solutions on the table can come back and haunt the team once the new product has been launched.

c. Slow research study turn-around times which new product design and development programs cannot tolerate and which preclude much needed testing ever being undertaken in the first place

d. Lack of creativity in the analysis of results and derivation of strategic insights-solutions. Here are some creative analytic approaches we've been using for our clients relative to quantitative

concept testing:
https://www.linkedin.com/pulse/here-four-solid-suggestions-weve-used-our-own-clients-savitt/

e. Limitations caused by a philosophy of 'product concept-first', rather than an 'unmet needs-first' research protocol. This has resulted in many new product ideas and prototypes being conceived and developed as a function of guesswork without the requisite hard data about unmet needs around which to develop concepts.

   However, of late, a new direction is being undertaken, one in which the identification of unmet customer needs is put first, around which new product ideas and concepts can be designed and developed. Applying a 'needs-first' approach at the onset of the project eliminates much of the guesswork around which many new product ideas and concepts are subsequently developed.

   However, by making this shift from a 'concept-first' to an 'unmet needs-first' design and development strategy, there was an assumption that the same 'ideas-first' research and testing procedures could still be used to determine and validate customer needs. The wrong research tools (max-diff, forced choice techniques, conjoint analysis, etc.) are still inappropriately being used to determine unmet needs. The inherent flaw: while these are fine tools to ascertain solutions preferences, they are weak when applied to uncovering and identifying customer needs. Customers should not be asked to indicate which need they prefer; rather, any trade-offs and preferences should be made in terms of which new product SOLUTION is preferred. We think here on the basis of JOBS TO BE DONE (JTBD), and there may be over 100 JTBD outcomes for any product idea. Each outcome is not a single alternative but rather, an outcome which is but one of many needed to get the job done. For any JTBD, there may be 125 desired outcomes, 20 of which could be unmet. The objective is to discover the degree to which each outcome is seen as underserved or overserved, and how well each is perceived as solving the JTBD. The product design-development team can determine how best to satisfy (i.e., design and develop) all 20 underserved outcomes. Customers (i.e., research respondents) should never be required to make a trade-off of unmet needs since they will usually want all their unmet, underserved needs to be satisfied.

   Research vendors who are still applying traditional research methods to determine unmet needs for their new product design-development clients are not adequately fulfilling their clients' program objectives. WACSIS utilizes a more dynamic research protocol to get at unmet needs, one which overcomes the flawed perspectives of traditional research techniques. It is predicated on thinking about new products in terms of JTBD, and permeates all new product program research phases and milestones:

   1. At the qualitative ideational phase (using any of our 18 proprietary brainstorming tools – NOT FOCUS GROUPS - to generate unmet needs per any product space

   2. At the subsequent quantitative phase to confirm and identify highest priority unmet need outcomes around which a new product can be designed and developed

   3. At subsequent confirmatory concept-product test phases that validate the viability of the concept, then the product, developed around a priori established unmet needs

Feel free to contact us directly to request additional information about the specific UNMET NEEDS research protocol we implement.